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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: BOSTON MERCHANT FINANCIAL SERVICES, INC

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

376 BOYLSTON ST, SUITE 203

(No. and Street)

Boston

(City)

MA

(State)

02116

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

SEAN GARR

401-529-0704

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

BOBROW & COMPANY, P.C.

(Name - if individual, state last, first, middle name)

GREENBRIAR BUSINESS PARK, TWO BRIDGEWATER RD, FARMINGTON, CT 06032

(Address)

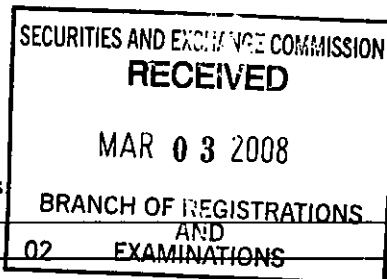
(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions

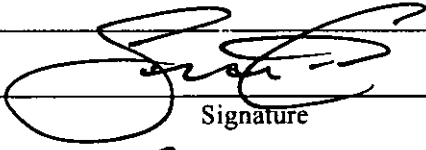


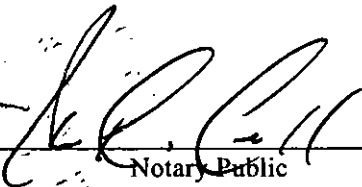
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, SEAN CAIR, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BOSTON MERCHANT FINANCIAL SERVICES, INC, as of Dec 31, 20 07, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

  
Signature  
PRESIDENT  
Title

  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**Boston Merchant Financial Services, Inc.**  
**Financial Statements**  
**December 31, 2007 and 2006**

SEC Mail  
Mail Processing  
Section

MAR 03 2008

Washington, DC  
106

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# Bobrow & Company, P.C.

Certified Public Accountants

Morris A. Morgenstein, CPA  
Ronald G. Mamrosh, CPA, JD  
Dawn M. DiStefano, CPA  
J. Wayne Thornton, CPA

Alec R. Bobrow, CPA

## Report of Independent Public Accounting

To the Board of Directors  
Boston Merchant Financial Services, Inc.  
Boston, Massachusetts

We have audited the accompanying statements of financial condition of Boston Merchant Financial Services, Inc. (the Company) as of December 31, 2007 and 2006, and the related statements of income (loss), changes in stockholders' equity, and cash flows for the years then ended that you are filing pursuant to rule 17a-5(g)(1) under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boston Merchant Financial Services, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Computations of Net Capital and Aggregate Indebtedness Pursuant to Rule 15c3-1 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

February 13, 2008

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**Boston Merchant Financial Services, Inc.**  
**Statements of Financial Condition**  
**December 31, 2007 and 2006**

ASSETS

|                           | <u>2007</u>      | <u>2006</u>      |
|---------------------------|------------------|------------------|
| Current assets:           |                  |                  |
| Cash and cash equivalents | \$ 43,884        | \$ 77,015        |
| Prepaid expenses          | 0                | 15,640           |
| Other receivables         | <u>0</u>         | <u>8,120</u>     |
|                           | <u>\$ 43,884</u> | <u>\$100,775</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

|   |                  |                  |
|---|------------------|------------------|
| Current liabilities:  |                  |                  |
| Accounts payable  | \$ <u>121</u>    | \$ <u>14</u>     |
|   | <u>121</u>       | <u>14</u>        |
| Stockholders' equity:   |                  |                  |
| Common stock, no par value (stated value \$10);<br>5,000 shares authorized, 1,000 shares issued | 10,000           | 10,000           |
| Additional paid-in capital  | 40,000           | 0                |
| Retained earnings   | 7,137            | 104,135          |
| Less: Treasury stock, at cost, 250 shares   | <u>(13,374)</u>  | <u>(13,374)</u>  |
| Total stockholders' equity  | <u>43,763</u>    | <u>100,761</u>   |
| Total liabilities and stockholders' equity  | <u>\$ 43,884</u> | <u>\$100,775</u> |

The accompanying accountants' report and notes are an integral part of these financial statements.

**Boston Merchant Financial Services, Inc.**  
**Statements of Income (Loss)**  
**For the Years Ended December 31, 2007 and 2006**

|                                      | <u>2007</u>     | <u>2006</u>       |
|--------------------------------------|-----------------|-------------------|
| Revenues:                            |                 |                   |
| Incentive income                     | \$ 7,600        | \$ 6,234          |
| Distributor income                   | <u>(80)</u>     | <u>37,822</u>     |
| Total revenues                       | <u>7,520</u>    | <u>44,056</u>     |
| Expenses:                            |                 |                   |
| Professional fees                    | 13,000          | 17,305            |
| Regulatory expense                   | 2,292           | 1,745             |
| Other taxes                          | 250             | 218               |
| Registrations and fees               | 78              | 999               |
| Office expense                       | 36              | 86                |
| Insurance expense                    | 0               | 12,448            |
| Royalty                              | <u>0</u>        | <u>5,393</u>      |
| Total expenses                       | <u>15,656</u>   | <u>38,194</u>     |
| Net income (loss) before other items | (8,136)         | 5,862             |
| Other income (expenses):             |                 |                   |
| Miscellaneous income                 | 36,146          | 2,103             |
| Interest income                      | 620             | 2,822             |
| Bad debt expense                     | <u>0</u>        | <u>(75,793)</u>   |
| Net income (loss)                    | <u>\$28,630</u> | <u>\$(65,006)</u> |

The accompanying accountants' report and notes are an integral part of these financial statements.

**Boston Merchant Financial Services, Inc.**  
**Statements of Changes in Stockholders' Equity**  
**For the Years Ended December 31, 2007 and 2006**

|  | Common Stock<br>Shares | Common Stock<br>Amount | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Paid in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
|--|------------------------|------------------------|--------------------------|--------------------------|--------------------|----------------------|---|----------------------------------|
| Balance, December 31, 2005                     | 1,000                  | \$10,000               | (250)                    | \$ (13,374)              | \$ 0               | \$169,141            | \$ 0  | \$165,767                        |
| Comprehensive income                           |                        |                        |                          |                          |                    |                      |   |                                  |
| Contributed capital                            |                        |                        |                          |                          |                    |                      |   |                                  |
| Net loss                                       |                        |                        |                          |                          |                    | (65,006)             |   | (65,006)                         |
| Other comprehensive income:                    |                        |                        |                          |                          |                    |                      |   |                                  |
| Unrealized gain on securities:                 |                        |                        |                          |                          |                    |                      |   |                                  |
| Unrealized holding gains arising during period |                        |                        |                          |                          |                    |                      |   | <u>0</u>                         |
| Total comprehensive income                     |                        |                        |                          |                          |                    |                      |   | <u>(65,006)</u>                  |
| Shareholder distributions                      | <u>0</u>               | <u>0</u>               | <u>0</u>                 | <u>0</u>                 | <u>0</u>           | <u>0</u>             | <u>0</u>  | <u>0</u>                         |
| Balance, December 31, 2006                     | 1,000                  | 10,000                 | (250)                    | (13,374)                 | 0                  | 104,135              | 0   | 100,761                          |
| Comprehensive income                           |                        |                        |                          |                          |                    |                      |   |                                  |
| Contributed capital                            |                        |                        |                          |                          | 40,000             |                      |   | 40,000                           |
| Net income                                     |                        |                        |                          |                          |                    | 28,630               |   | 28,630                           |
| Other comprehensive income:                    |                        |                        |                          |                          |                    |                      |   |                                  |
| Unrealized gain on securities:                 |                        |                        |                          |                          |                    |                      |   |                                  |
| Unrealized holding gains arising during period |                        |                        |                          |                          |                    |                      |   | <u>0</u>                         |
| Total comprehensive income                     |                        |                        |                          |                          |                    |                      |   | <u>28,630</u>                    |
| Shareholder distributions                      | <u>0</u>               | <u>0</u>               | <u>0</u>                 | <u>0</u>                 | <u>0</u>           | <u>(125,628)</u>     | <u>0</u>  | <u>(125,628)</u>                 |
| Balance, December 31, 2007                     | <u>1,000</u>           | <u>\$10,000</u>        | <u>(250)</u>             | <u>\$ (13,374)</u>       | <u>\$40,000</u>    | <u>\$ 7,137</u>      | <u>\$ 0</u>                                     | <u>\$ 43,763</u>                 |

The accompanying accountants' report and notes are an integral part of these financial statements.



**Boston Merchant Financial Services, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2007 2006**

|   | <u>2007</u>      | <u>2006</u>      |
|---|------------------|------------------|
| <u>Cash Flows from Operating Activities:</u>  |                  |                  |
| Net income (loss)   | \$ 28,630        | \$ (65,006)      |
| Adjustments to reconcile net income (loss) to net cash provided (used by) operating activities: |                  |                  |
| Decrease (increase) in prepaid expenses   | 15,640           | (15,248)         |
| Decrease (increase) in other receivables  | 8,120            | (1,549)          |
| Decrease in due from affiliate  | 0                | 67,686           |
| Increase (decrease) in accounts payable   | 107              | (3,458)          |
| Decrease in accrued expenses  | <u>0</u>         | <u>(250)</u>     |
| Net cash provided (used by) operating activities  | <u>52,497</u>    | <u>(17,825)</u>  |
| <u>Cash Flows from Financing Activities:</u>  |                  |                  |
| Contributed capital   | 40,000           | 0                |
| Distribution to shareholders  | <u>(125,628)</u> | <u>0</u>         |
| Net cash provided (used by) financing activities  | <u>(85,628)</u>  | <u>0</u>         |
| Net decrease in cash and cash equivalents   | (33,131)         | (17,825)         |
| Cash and cash equivalents, beginning of year  | <u>77,015</u>    | <u>94,840</u>    |
| Cash and cash equivalents, end of year  | <u>\$ 43,884</u> | <u>\$ 77,015</u> |
| <u>Supplemental Disclosures:</u>  |                  |                  |
| Cash paid during the year for:  |                  |                  |
| Interest  | \$ 0             | \$ 0             |
| Taxes   | \$ 0             | \$ 0             |

**The accompanying accountants' report and notes are an integral part of these financial statements.**

**Boston Merchant Financial Services, Inc.**  
**Notes to Financial Statements**

1. Nature of Operations:

Boston Merchant Financial Services, Inc. (the Company) was organized on November 1, 1988 as a Connecticut corporation for the purpose of conducting business as a broker/dealer and selling mutual fund shares to institutional customers located in Connecticut and Massachusetts.

2. Summary of Significant Accounting Policies:

**Stock Ownership**

During 2007, 100% of the shares of the Corporation were transferred to a new shareholder.

**Name Change**

Boston Merchant Financial Services, Inc. was formerly T.O. Richardson Securities, Inc. before legally changing its corporate name. The new name became effective on October 3, 2007.

**Income Taxes**

Under the provisions of the Internal Revenue Code, the Company was taxed as an S Corporation through August 7, 2007. Under such election, the Company's taxable income was passed through to the individual shareholders. However, the Company terminated its S Corporation election effective August 7, 2007 and beginning August 8, 2007, the Company is taxed as a C Corporation.

The Company now accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, whereby deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. At December 31, 2007 there were no differences from book and tax income, therefore there were no deferred taxes.

**Cash and cash equivalents**

The Company has defined cash equivalents as short-term, highly liquid investments with original maturities of less than 90 days, including the money market funds held for investment.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

**Boston Merchant Financial Services, Inc.**  
**Notes to Financial Statements**

3. Net Capital and Reserve Requirements:

Under the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1 (the Rule), the Company is required to maintain minimum "net capital" equal to the greater of \$25,000 or 6-2/3% of "aggregate indebtedness", as those terms are defined in the Rule. The Company's net capital under the Rule at December 31, 2007 and 2006 equals \$43,763 and \$75,767, respectively, which is in excess of the required minimum.

The Company does not hold funds or securities for, or owe funds or securities to, customers other than funds or securities promptly forwarded to the clearing broker/dealer or customer. The Company is thereby exempted from Rule 15c3-3 of the Securities Exchange Act of 1934 by paragraph (k) (2) (i) of that rule.

4. Related Parties:

The Company executes transactions and provides distribution services for its customers and the customers of its affiliate, T.O. Richardson Company, Inc. The affiliate provided investment advisory services based upon a formula that monitors market activity.

A royalty agreement existed between the two entities. In accordance with the royalty agreement the Company paid \$5,393 to T.O. Richardson Company, Inc. for royalty costs through April 2006. This amount was equal to 95% of net income excluding state income taxes. As of April 26, 2006, T.O. Richardson Company, Inc. sold its assets to an outside unrelated third party and ceased to do business. At this time T.O. Richardson Company, Inc. also withdrew its registration as an investment advisor with the SEC. Therefore, the royalty agreement has ceased to exist.

During 2005, an expense sharing agreement was put into effect to provide a means of allocating overhead costs paid directly by T.O. Richardson Company, Inc. These overhead costs were included in royalty expenses until termination of the royalty agreement. Subsequently this agreement was rewritten effective April 26, 2006. As rewritten the expense sharing agreement was terminated and both parties were released from further obligations thereunder.

At April 26, 2006, T.O. Richardson Company, Inc. owed \$75,793 to T.O. Richardson Securities, Inc. This amount was reclassified as bad debt.

BMP Standard, LLC, the sole shareholder of Boston Merchant Financial Services, Inc., is a holding company that also owns Boston Merchant Financial, LLC, a member of NFA which acts as an introducing agent for futures and commodities trading to Futures Commission Merchants.

**Boston Merchant Financial Services, Inc.**  
**Computations of Net Capital and Aggregate Indebtedness Pursuant to Rule 15c3-1**  
**For the Years Ended December 31, 2007 and 2006**

|   | <u>2007</u>      | <u>2006</u>      |
|---|------------------|------------------|
| Stockholders' equity  | \$ 43,763        | \$100,761        |
| Less: Non-allowable assets  | <u>0</u>         | <u>23,760</u>    |
| Net capital before haircut on security position   | 43,763           | 77,001           |
| Less: Haircut on money market fund investment   | <u>0</u>         | <u>1,234</u>     |
| Net capital   | 43,763           | 75,767           |
| Minimum net capital required to be maintained<br>(greater of \$25,000 or 6-2/3% of aggregate<br>indebtedness of \$121 in 2007 and \$14 in 2006) | <u>25,000</u>    | <u>25,000</u>    |
| Net capital in excess of requirement  | <u>\$ 18,763</u> | <u>\$ 50,767</u> |
| Ratio of aggregate indebtedness to net capital  | <u>0%</u>        | <u>0%</u>        |

NOTE: No differences exist between the computation of net capital above and that included in the Company's unaudited December 31, 2007 and 2006 quarterly Focus Reports – Part IIA filing.



# **Bobrow & Company, P.C.**

**Certified Public Accountants**

Morris A. Morgenstein, CPA  
Ronald G. Mamrosh, CPA, JD  
Dawn M. DiStefano, CPA  
J. Wayne Thornton, CPA

Alec R. Bobrow, CPA

## **Report on Internal Control Required by SEC Rule 17a-5 for a Broker-Dealer Claiming an Exemption From SEC Rule 15c3-3**

To the Board of Directors  
Boston Merchant Financial Services, Inc.

In planning and performing our audits of the financial statements and supplemental schedule of Boston Merchant Financial Services, Inc. (the Company), for the years ended December 31, 2007 and 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

**Report on Internal Control Required by SEC Rule 17a-5 for a Broker-Dealer  
Claiming an Exemption From SEC Rule 15c3-3**

Page 2

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007 and 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

February 13, 2008

**END**